



WASHOE COUNTY

Integrity Communication Service
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CM/ACM	<u> x </u>
Finance	<u> x </u>
DA	<u> x </u>
Risk Mgt	<u> n/a </u>
HR	<u> n/a </u>
Other	<u> </u>

STAFF REPORT

BOARD MEETING DATE: *May 9, 2017*

DATE: Tuesday, May 02, 2017

TO: Board of County Commissioners

FROM: Alison A. Gordon, Internal Audit Manager
775-328-2064, agordon@washoecounty.us

THROUGH: John Slaughter, County Manager

SUBJECT: Acknowledge Receipt of the Washoe County 2017 Cash Controls Audit Report from the Internal Audit Division (All Commission Districts)

SUMMARY

The Board of County Commissioners' approved schedule of audits for FY2017 included an audit of the County's cash controls. This audit involved assessing current practices and looking for opportunities to improve the efficiency and effectiveness of controls over cash.

The results of our review indicated cash controls can be strengthened. Specifically:

Departments need to improve administration over petty cash. For example, petty cash funds should be reconciled at least monthly, petty cash should not be used in place of writing a check from another fund, and spreadsheets should be used to document disbursement data and replenishment requests.

Several instances were noted where department change fund and/or petty cash policies and procedures were not adequate to ensure a complete system of internal controls was in place over change and petty cash funds.

The Davis Creek Campground currently only accepts cash payments. This is more than likely inconvenient for campers and places both campers and staff at risk due to loss or theft. If an automated camping fee kiosk was implemented, staff safety as well as safeguarding of cash receipts would be enhanced, and staff time would be freed up to focus on other duties such as improved programming for the community.

Departments using Accela are having issues getting cash receipts recorded timely due to the system going down, customer data sometimes needs to be input multiple times, and an instance occurred where a permit was issued even though the corporate customer's check could not be recorded in Accela.

Division Strategic Objective supported by this item: To ensure County Operations are Administered Efficiently and Effectively

PREVIOUS ACTION

No previous action has been taken on this Board item.

BACKGROUND

Many of the County's departments use change and petty cash funds, and are responsible for receiving and processing cash, checks, and/or credit cards. Currently, 19 departments have received authorization from the Board of County Commissioners for change funds, ranging between \$50.00 and \$6,000.00. Additionally, departments have been authorized for 9 petty cash funds, ranging between \$50.00 and \$15,000.00.

Department management is responsible for establishing and maintaining the proper environment of internal controls to help prevent mishandling of funds and safeguard cash assets against loss. Strong internal controls also protect employees from inappropriate charges of mishandling funds by defining responsibilities in the cash handling process.

An adequate system of internal controls includes activities such as accounting for cash when it is received, separating the cash handling duties of receipting, recording, and deposit; safeguarding the handling and storage of cash; and reconciling cash activity in a timely manner. Another example of good controls involves surprise monitoring of the process by staff not directly involved in processing cash receipts such as a fiscal compliance officer.

To assess the cash handling control practices, a review was conducted at six County departments (Alternative Sentencing, the Health District, Senior Services, Social Services, the Sheriff's Office and the Treasurer's Office) and one division within the Community Services Department (Regional Parks and Open Space). Exhibit I below shows these departments/divisions and the number and amount of change and petty cash funds each administers.

Exhibit I

Department/Division	Change Funds – Number and Dollar Amount	Petty Cash Funds – Number and Dollar Amount
Alternative Sentencing	3 - \$600.00	\$0.00
CSD – Regional Parks and Open Space	14 - \$3,180.00	\$0.00
Health District	22 - \$2,550.00	\$0.00
Senior Services	2 - \$500.00	1 - \$300.00
Social Services	\$0.00	1 - \$1,000.00
Sheriff's Office	6 - \$1,200.00	4 - \$21,600.00
Treasurer's Office	6 - \$6,000.00	1 - \$25.00

SCOPE AND METHODOLOGY

The scope of the audit included determining if cash assets are adequately safeguarded, verifying valid reconciliation processes are in place and reviewing whether staff follows proper procedures. To obtain an understanding of the cash controls in place, a review was performed of the policies and procedures pertaining to cash. Staff handling cash was

also interviewed. Seven departments/divisions were audited that have change, petty cash and buy funds. These funds were counted and related documents were tested. Additionally, a review was performed of the bank account reconciliation processes for certain bank accounts being used other than the County's general bank account.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards and covered the period between July 2016 and April 2017. Fieldwork was conducted between December 2016 and April 2017.

FISCAL IMPACT

This report has no fiscal impact. However, implementation of some recommendations may have fiscal impact.

RECOMMENDATION

It is recommended the Board of County Commissioners move to acknowledge receipt of the Washoe County 2017 Cash Controls Audit Report from the Internal Audit Division.

POSSIBLE MOTION

Should the Board of County Commissioners acknowledge receipt of this audit report, a possible motion would be:

Move to acknowledge receipt of the Washoe County 2017 Cash Controls Audit Report from the Internal Audit Division.

WASHOE COUNTY



Washoe County 2017 Cash Controls Audit

April 19, 2017

Alison A. Gordon, CPA, CFE
Internal Audit Manager



Executive Summary

Departments need to improve the administration over petty cash.

Petty cash requests need to be complete, the fund should be reconciled at least monthly, excel spreadsheets should be used to document disbursement data as well as for preparing replenishment requests. Also, petty cash should not be used as an advance on behalf of other funds. (Pages 3 – 5)

Change and petty cash administration policies and procedures need to be revised or developed, and then implemented.

Several instances were noted where department change fund and/or petty cash policies and procedures were not following best practices. Best practices help ensure a complete system of internal controls is in place over change and petty cash funds. (Pages 5 – 7)

An automated camping fee kiosk needs to be procured and placed at the Davis Creek Campground.

The Davis Creek Campground currently only accepts cash payments. This is more than likely inconvenient for campers and places both campers and staff at risk due to loss or theft. If an automated camping fee kiosk was implemented, staff safety as well as safeguarding of cash receipts would be enhanced, and staff time would be freed up to focus on other duties such as improved programming for the community. (Pages 7 – 9)

Cash handling using Accela has resulted in poor internal control practices.

Departments using Accela are having issues getting cash receipts recorded timely due to the system going down, customer data sometimes needs to be input multiple times, and an instance occurred where a permit was issued even though the corporate customer's check could not be recorded in Accela. (Page 9)

Observations and Recommendations

1. Several areas of non-compliance with best practices for cash controls were identified and are considered weaknesses in the current system of internal controls. Strong internal controls help detect errors and ensure information generated by County departments is reliable, thereby enhancing accountability.

- a. **Petty Cash Funds**

During my review, various instances were identified where the administration of petty cash funds can be improved.

Social Services

Social Services can enhance its management of the petty cash fund taking the following steps by:

- Ensuring petty cash fund requests are correctly completed and include the requestor signature and supervisor signature. As part of my petty cash fund count, department staff and I reviewed reimbursement requests made subsequent to June 30, 2016, and noted several errors in the amounts reported as expended. Also noted was an instance where the request was not signed by the person requesting the funds.
- Implementing an excel spreadsheet to administer petty cash. Currently, there is no way to track who issued petty cash and the date it was issued. Because any one of three staff can issue petty cash, an excel spreadsheet could be used to show who issued the petty cash, the date the petty cash was issued, and who the petty cash was given to.
- When preparing a replenishment request, using an excel spreadsheet should be used to prepare the replenishment request, and include a signature and date. Also, the replenishment and petty cash fund should be double counted and the second person should also sign and date the replenishment request. Currently, an excel spreadsheet is not being used to prepare the replenishment request, and this request is prepared by one of the three petty cash staff.
- Reconciling petty cash fund at least monthly. At the time of my review in January 2017, this fund had not been reconciled since June 2016, over six months prior. I also found the approved \$1,000 fund had an overage of \$9.81 that could not be initially be explained.

As of the date of this report Social Services reported that it is in the process of revising petty cash administration practices to address the above noted issues.

Senior Services

Senior Services needs to improve its management of the petty cash fund as follows:

- Senior Services needs to use its petty cash for its intended purposes. When this fund was approved, the intended uses included small random expenses such as filing fees for legal documents filed on behalf of a client, reimbursing employees for parking meter expenses while conducting County business, and various small unforeseen vehicle maintenance needs that would affect meal or other critical programs. During the review of the petty cash, I found petty cash was being used to pay for senior citizen rent, late payment fees, prescriptions, and power bills.

Also, I was told this fund has been used to advance monies pertaining to Angel Fund expenses. The Angel Fund consists of donations provided by an individual to assist senior citizens. These donations are deposited and recorded in SAP. The reason the petty cash fund was used was because the petty cash fund allows for immediate cash whereas to get monies from the Angel Fund a check needs to be issued. When this happens, the Angel Fund is supposed to reimburse the petty cash fund. This didn't take place. For example, I found a petty cash advance request with "Angel" written on the request but subsequently these costs were reimbursed by the general fund.

Nothing in the description provided by the approved petty cash fund creation documents suggests that petty cash would be used to pay senior citizen personal bills or to give "loans" to the Angel Fund.

- Senior Services needs to ensure the petty cash fund reconciles and use an excel spreadsheet to track and balance the petty cash fund. During my review of this fund, it was noted staff are using small pieces of paper with numbers that don't balance from entry to entry. For example, on a piece of paper, a count was performed December 8, 2016 showing a \$25 balance but a second piece of paper showed an undated ending balance of \$194, which we counted and verified. With an expense of \$100 listed, this indicates a fund total of \$294. This is \$6 less than the approved fund of \$300. There was no notation showing any replenishment funds had been received. To administer the petty cash fund, Senior Services should use an excel spreadsheet that includes a date column, a beginning balance, replenishment amounts, disbursements of petty cash and an ending balance. Such a spreadsheet would help when reconciling the fund and tracking reimbursements.

As of the date of this report, Senior Services reports it is in the process of revising its practices for the administration of petty cash.

Recommendations:

Department staff should:

- 1.a.1 Ensure petty cash documents, including reimbursement requests, are complete and accurate at Social Services,*
- 1.a.2 Implement an Excel spreadsheet to administer the petty cash fund for both the Social Services and Senior Services,*
- 1.a.3 Use an Excel spreadsheet to prepare its petty cash fund replenishment requests for both Social Services and Senior Services,*
- 1.a.4 Reconcile its petty cash fund at least monthly for both Social Services and Senior Services,*
- 1.a.5 Reimburse the general fund for all "Angel" fund expenses where petty cash was used, and,*
- 1.a.6 Discontinue using petty cash funds as a loan to the "Angel" fund at Senior Services.*

b. Periodic Surprise Cash Counts

Performing random, unannounced cash counts by a designated employee is a best practice. Surprise cash counts are an excellent tool for testing whether transactions comply with established policies and procedures. Several departments were found not to perform internal surprise cash counts, including Alternative Sentencing, Senior Services and Social Services. Each of these departments could benefit greatly from these types of cash counts as staff and change funds are not always centrally located. For example, Alternative Sentencing has a change fund at Reno Justice Court, Sparks Justice Court, and the SOBER 24 facility. In addition, both Social Services and Senior Services have petty cash funds but surprise cash counts are not performed. In each of these instances, performing surprise cash counts would help ensure staff is properly following department policies and procedures.

As of the date of this report, Alternative Sentencing has implemented a policy to perform periodic surprise cash counts in its cash handling policies.

As of the date of this report, both Senior Services and Social Services report being in the process of implementing a policy to perform surprise cash counts.

Recommendation:

- 1.b.1 Alternative Sentencing, Senior Services and Social Services should develop and implement a procedure to perform periodic surprise cash counts.*

c. Cash Handling Policies and Procedures

Communication is an essential component of a comprehensive framework of internal controls. One method of communication which has been identified as a best practice by the Government Finance Officers Association is a well-designed and properly maintained system of documenting accounting policies and procedures. Such policies and procedures enhance both accountability and consistency and should be readily available to all employees.

Alternative Sentencing

The Alternative Sentencing Department needs to update its current policies and procedures for cash handling. This includes clarifying the process for providing receipts for payments received in the mail, adding information about credit cards being swiped by the probationer and not department staff, the performance of periodic surprise cash counts, proper handling void receipts, and updating the procedures to show payments are entered directly into Scotia, the system used by the department.

Once these issues were discussed with Alternative Sentencing staff, the policies and procedures were updated to address the issues identified.

Health District

The Health District has cash handling policies and procedures in place. However these policies and procedures can be strengthened by adding a section on the controls that should be followed for voiding cash receipt payments. These controls should include the requirement of supervisor review and approval, and maintaining documentation. Conversations with staff in several of the department divisions showed staff were generally unaware of how to handle voiding a cash receipt document. Written policies and procedures would assist staff in correctly recording a void and help ensure that cash receipts recorded cannot be inappropriately overridden or altered.

As of the date of this report, the Health District is working towards adding a section in their policies and procedures to address voiding cash receipts.

Senior Services

Senior Services needs to fully develop and implement written policies and procedures pertaining to petty cash. The current procedures required only address how to request replenishment monies using SAP and do not include day to day administration of petty cash fund or preparing a replenishment request. As previously discussed, during the count of petty cash it was noted that amounts were written on small pieces of paper that were unclear. Written policies and procedures would assist staff in correctly administering the petty cash fund.

As of the date of this report, Senior Services reports it is in the process of revising its policies and procedures pertaining to petty cash.

Sheriff's Office

The Sheriff's Office has cash handling policies and procedures in place. These policies and procedures can be improved by adding a section on the controls used to void cash receipt payments. While the Civil and Records Divisions have procedures they follow, these procedures should be documented in the written policies and procedures.

As of the date of this report, the Sheriff's Office reports the written policies and procedures have been updated to include the procedures followed for voiding cash receipt payments.

Social Services

Social Services needs to revise its written procedures for handling its petty cash fund to ensure petty cash documents are compute and accurate. This includes using a spreadsheet to account for additions and disbursements to the petty cash fund, using a spreadsheet to reconcile the fund and request replenishments, and require the petty cash fund to be reconciled at least monthly.

As of the date of this report, Social Services reports it is in the process of revising its policies and procedures pertaining to petty cash.

Recommendation:

- 1.c.1 Alternative Sentencing needs to ensure its policies and procedures include clarification of the process for providing receipts for mail-in payments, adding information about credit cards being swiped by the probationer, the performance of periodic surprise cash counts, handing void receipts, and updating the procedures to show payments are entered directly into the Scotia system,*
- 1.c.2 The Health District needs to ensure procedures are documented and in place for voiding cash receipts,*
- 1.c.3 Senior Services needs complete policies and procedures for the day to day administration of petty cash,*
- 1.c.4 The Sheriff's Office should ensure procedures to void cash receipts are documented, and,*
- 1.c.5 Social Services needs to revise the written procedures to include using a spreadsheet to account for additions and disbursements to the petty cash fund, using a spreadsheet to reconcile the fund and request replenishments, and require the petty cash fund to be reconciled at least monthly.*

2. Automated Camping Fee Kiosk

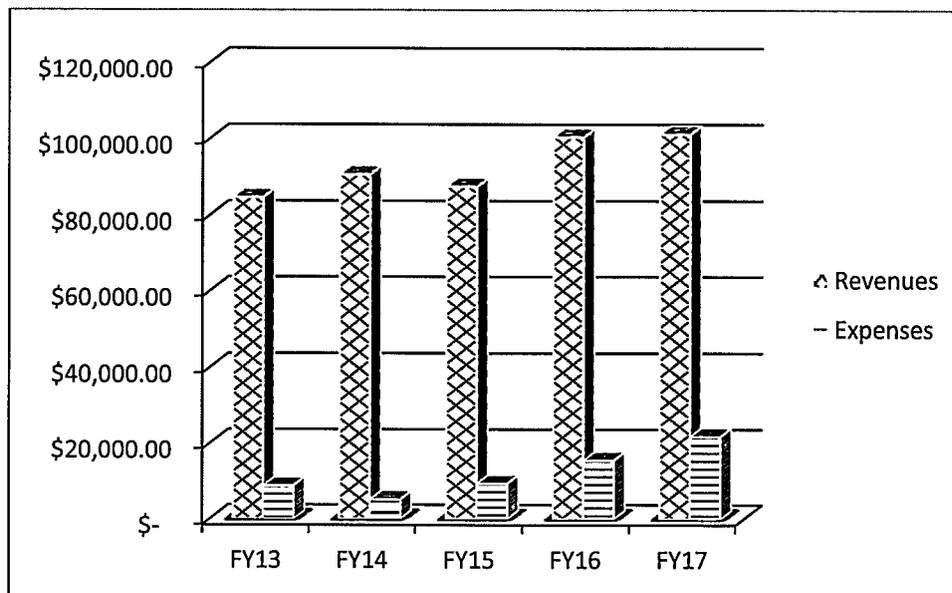
The Community Services Department can improve the cash receipting function at Davis Creek Campground by implementing an automated camping fee kiosk. Currently, the Davis Creek Campground only accepts cash payments for its camping fees. Also, a manual process is used to accept, issue a receipt, account for and subsequently prepare the deposit for these cash payments. During the busy summer season cash receipts can range between \$716 to over \$2K a day, which includes receipts collected from the "iron ranger" and fees collected directly from campers. Both cash receipts and staff could be at risk due to loss or theft while carrying cash. An automated camping fee kiosk would eliminate this risk.

In most instances campers may prefer to use a debit/credit card instead of carrying cash. While in the past cash may have been preferred, over the years consumer preferred payment

methods have changed. According to a 2014 online survey of 1,000 consumers who had both debit and credit cards, when asked the preferred payment type, 78 percent preferred debit and credit cards compared to 9 percent who preferred cash and 13 percent who preferred other methods or had no preference. This survey did not take into account mobile payment services such as Apple Pay and Android Pay.

Over the last five years, campground cash receipts have ranged between over \$82K in FY13 increasing every year to a projected annualized amount in FY17 of about \$102K. Moreover, since FY13, the Davis Creek Campground has had more revenues than expenditures each year and is projected to have excess revenues again in FY17. See Exhibit I below.

Exhibit I



Note: FY17 numbers were annualized.

Implementing an automated camping fee kiosk at the Davis Creek Campground would address the change in customer payment preferences as well as adding customer convenience, flexibility, and security from not carrying cash. In addition to customer benefits, a camping fee kiosk would eliminate the need for County staff to process cash payments manually and increase staff safety and eliminate the potential risk of loss or theft of cash. Moreover, according to park staff it takes about 30% to 40% of staff time each day to perform the administration, collection, and deposit of cash receipts. Using an automated camping fee kiosk would free up staff time to perform other work such as improving programming for the community, working on projects and maintenance to improve the park's visitor experience and interacting with park patrons to provide a safer and more enjoyable visit to Davis Creek Park.

The cost for an automated camping fee kiosk is estimated at \$48K. This includes \$16K for the purchase of camp maintenance and the kiosk, \$2K for credit card fee set up, and \$30K for the upgrade of the POS/Facility Reservation System.

As of the date of this report, the Community Services Department has requested funding for an automated camping fee kiosk as part of this FY2018 budget request.

Recommendation:

2.1 The Community Services Department should purchase an automated camping fee kiosk for Davis Creek Campground.

3. Accela Issues Impacting Cash Handling

During my reviews of cash handling, it was found cash controls are not always being followed due to problems encountered with the new Accela software. For example, staff is having difficulties recording cash receipts to this system as well as printing reports. For example, the Accela system goes down in the middle of processing a cash receipt. If staff can't bring the system back up, the customer is given a manual receipt. However, once the system can be accessed none of the data previously input has been recorded. As a result, staff have to re-input the customer data and record the receipt in the system. Instances have occurred where the system has gone down multiple times requiring staff to re-input data several times for the same customer. Because of these issues, departments can get behind in recording payments to the system. As a result, cash receipts are held and processed at a later time and supervisors have stepped in to assist with recording cash receipts even though a supervisor should be the position to perform review and approval. Additionally, having to input data several times is time consuming and there is a possibility for errors to occur.

Also, departments are having difficulties tracking customer overpayments in Accela. Because of this situation, certain departments are informing customers if they are writing a check, they must pay the exact amount. This can create problems for customers where a corporate check was issued, which can result in internal control issues. For example, an instance occurred where a business owner had a corporate check to pay for fees that was more than owed. However, the business owner needed a permit so the division issued the permit. The business owner's check was kept in a County safe and the invoice and payment was voided in Accela. The business customer came in a day or two later, picked up the incorrect check and replaced it with a check for the correct amount. At that time, a new invoice was generated in Accela and the payment was processed. Issuing a permit without recording a payment in the system is not a good accounting practice.

County staff, including the Internal Auditor, Technology Services, Community Services and the Health District, and an independent contractor have been working diligently to get the Accela system financial processes working. There have been a significant number of financial and programmatic issues that need to be addressed, each of which requires significant analysis and potentially additional programming. However, system issues affecting internal controls over cash handling should be a priority due to cash liquidity and the potential risk of loss.

Recommendations:

2.1 County staff should analyze their Accela priorities and should consider moving any cash handling issues to a higher priority, and,

2.2 County departments should not issue permits without receiving and recording a payment in the Accela system.